

India

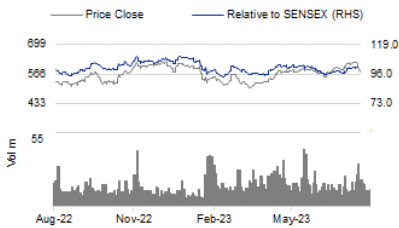
**ADD** (no change)

Consensus ratings\*: Buy 49 Hold 2 Sell 0

Current price:	Rs573
Target price:	Rs800
Previous target:	Rs800
Up/downside:	39.6%
InCred Research / Consensus:	10.3%
Reuters:	
Bloomberg:	SBIN IN
Market cap:	US\$70,460m
	Rs5,116,480m
Average daily turnover:	US\$137.9m
	Rs10012.5m
Current shares o/s:	8,924.6m
Free float:	40.0%
*Source: Bloomberg	

**Key changes in this note**

- The margin decline is attributable to a sequential surge in domestic term deposits (+4% qoq) along with a rise in the cost of domestic deposits (+56bp).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.7)	(1.2)	7.5
Relative (%)	(3.4)	(8.2)	(4.5)

Major shareholders	% held
Central Government	57.6
LIC	8.3
	0.0

**Analyst(s)**



**Jignesh SHIAL**  
 T (91) 22 4161 1547  
 E jignesh.shial@incredcapital.com  
**Mayank AGARWAL**  
 T (91) 22 4161 0000  
 E mayank.agarwal@incredcapital.com

# State Bank of India

## Volatile 1Q; focus is on profitable growth

- SBI reported a better-than-expected 1QFY24 PAT of Rs168.8bn despite margin decline amid lower operating expenses and improved credit cost.
- The margin decline is attributable to a sequential surge in domestic term deposits (+4% qoq) along with the rise in cost of domestic deposits (+56bp).
- We continue to appreciate SBI's rising retail market share, robust liability franchise and steady asset quality. Retain ADD rating with a TP of Rs800.

### Volatile credit momentum caused by corporate & overseas portfolio

State Bank of India or SBI's gross advances grew by ~14.9% yoy/~1.1% qoq in 1QFY24 to Rs32.3tr backed by a healthy traction in retail advances (+2.1% qoq), including home loans, whereas domestic corporate loans (+0.2% qoq) and international advances (-1.9% qoq) witnessing a qoq weakness. Management is confident of a healthy growth momentum (13-15%) in the FY24F led by focused retail penetration, capex-driven corporate loan book growth and taking a lead in international syndications. Though we are watchful on incremental credit, SBI's diversified product profile across lenders (retail/corporate) and improved digital reach will keep it relevant, even in a slowing demand scenario. We are building in ~13.3% CAGR in advances over FY23-25F against ~17% in FY23.

### Margins decline amid a surge in term deposits

SBI reported a sequential dip in margins to ~333bp (whole bank) led by a decline of ~11bp sequentially in domestic operations during 1QFY24. We believe the margin decline is attributable to a sequential surge in domestic term deposits (+4% qoq) along with a rise in the cost of domestic deposits (+56bp). Management maintains its guidance of ~345-350bp for FY24F amid a comfortable domestic credit-deposit ratio of ~65% and liquid treasury portfolio worth Rs4tr. However, considering the ~6% variable rate portfolio as well as repricing of existing deposits at higher pricing, we expect the net interest margin or NIM to remain in the range of ~320-330bp for FY24F-25F.

### Asset quality trend healthy; no negative surprise in near term

NPAs of SBI remained flat qoq with GNPA's/NNPA's at 2.76%/0.71%, with the coverage at ~74.8%. The trend in slippages and recoveries remains comfortable whereas the spurt in SMA 1/ SMA 2 is seasonal. With incremental credit tilted towards retail of which unsecured retail is mainly towards PSU employees this along with healthy state of corporate Balance sheet provide us comfort We are building ~170bp credit cost for FY24F.

### Outlook & valuation

We continue to appreciate SBI's rising retail market share, robust liability franchise & steady asset quality. We have valued SBI on sum-of the parts (SOTP) basis, with the standalone bank valued at ~1.3x FY25F ABV and the subsidiaries contributing Rs200/share. Accordingly, we have arrived at a target price of Rs800 or ~1.8x FY25F P/ABV with RoA of ~1% & RoE of ~17% for FY24F. Retain ADD rating. Downside risks: Weaker growth and a surge in non-performing assets or NPAs.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	1,107,100	1,207,076	1,448,405	1,653,114	1,793,380
Total Non-Interest Income (Rsm)	434,966	405,639	366,156	435,512	490,008
Operating Revenue (Rsm)	1,542,066	1,612,715	1,814,561	2,088,626	2,283,388
Total Provision Charges (Rsm)	(440,130)	(244,521)	(165,073)	(142,945)	(183,779)
Net Profit (Rsm)	204,107	316,760	502,325	634,211	652,676
Core EPS (Rs)	22.87	35.49	56.29	71.06	73.13
Core EPS Growth	26%	82%	35%	26%	3%
FD Core P/E (x)	25.07	16.15	10.19	8.07	7.84
DPS (Rs)	4.00	7.10	11.30	17.77	20.12
Dividend Yield	0.70%	1.24%	1.97%	3.10%	3.51%
BVPS (Rs)	284.5	313.8	367.1	420.4	473.4
P/BV (x)	2.02	1.83	1.56	1.36	1.21
ROE	8.4%	14.6%	16.5%	18.0%	16.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Interest Income	311,959	351,834	380,686	403,925	389,050	24.7%	-3.7%
<i>Domestic NIM (% of AUM)</i>	2.9%	3.2%	3.3%	3.4%	3.2%		
Fee-Based Income	23,122	88,743	114,677	139,614	120,634	421.7%	-13.6%
Operating Expenses	207,556	229,377	243,171	297,328	256,714	23.7%	-13.7%
<b>Operating Profit</b>	<b>127,526</b>	<b>211,200</b>	<b>252,193</b>	<b>246,211</b>	<b>252,969</b>	<b>98.4%</b>	<b>2.7%</b>
Provisions	43,924	30,387	57,606	33,157	25,013	-43.1%	-24.6%
<i>% of operating profit</i>	34.4%	14.4%	22.8%	13.5%	9.9%		
Exceptional Items	-	-	-	-	-		
<b>PBT</b>	<b>83,602</b>	<b>180,814</b>	<b>194,587</b>	<b>213,054</b>	<b>227,956</b>	<b>172.7%</b>	<b>7.0%</b>
Tax	-22,921	-48,168	-52,534	-46,109	-59,113	157.9%	28.2%
<i>Tax rate (%)</i>	-27.4%	-26.6%	-27.0%	-21.6%	-25.9%		
<b>PAT</b>	<b>60,681</b>	<b>132,645</b>	<b>142,053</b>	<b>166,945</b>	<b>168,843</b>	<b>178.2%</b>	<b>1.1%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

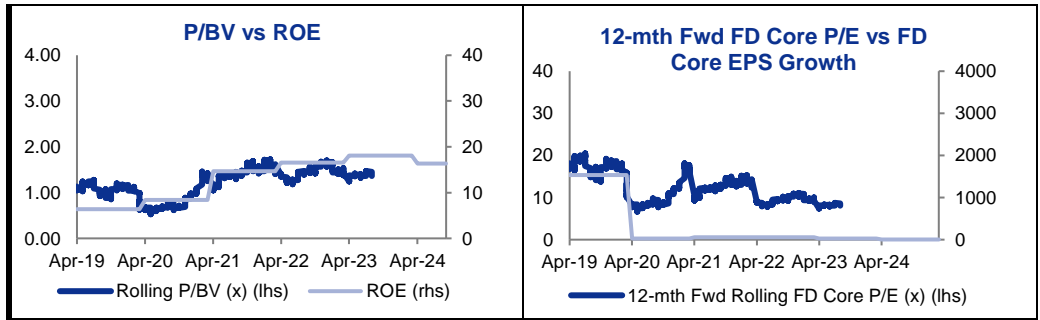
Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	1,611,746	1,653,114	2.6%	1,811,350	1,793,380	-1.0%	2,065,158	2,018,774	-2.2%
Non-Interest Income	426,372	435,512	2.1%	480,451	490,008	2.0%	542,146	551,879	1.8%
PPOP	976,980	999,986	2.4%	1,107,253	1,065,773	-3.7%	1,273,205	1,211,539	-4.8%
PAT	588,084	634,211	7.8%	644,288	652,676	1.3%	750,335	741,306	-1.2%
EPS (Rs)	65.9	71.1	7.9%	72.2	73.1	1.3%	84.1	83.1	-1.2%
BV (Rs)	416.5	420.5	1.0%	468.8	473.5	1.0%	527.7	531.7	0.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Conference-call highlights

- SBI did low disbursements in its international book due to problems in the global economy.
- SBI witnessed negligible attrition in comparison to higher attrition in private sector banks.
- The bank launched its YONO app for the customers of other banks.
- Open architecture for cross-sales of products is not feasible for SBI, as its customers seek products of the SBI group only.
- Slippage in the retail segment stood at Rs24bn, agri segment Rs23bn and SME segment Rs24bn out of which Rs7bn in case of retail, Rs3bn in agri and Rs6bn in SME already upgraded in Jul 2023.
- SBI has Rs4tr of excess SLR.
- 94% of Xpress loans have been given to government organizations and the remaining to well-rated corporates.
- SBI has 24% fixed-rate loans and 76% floating-rate loans.
- The bank repriced Rs1.2-1.4tr of deposits every month. Its maximum deposits are in the tenure of one-to-two years.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income	1,107,100	1,207,076	1,448,405	1,653,114	1,793,380
<b>Total Non-Interest Income</b>	<b>434,966</b>	<b>405,639</b>	<b>366,156</b>	<b>435,512</b>	<b>490,008</b>
Operating Revenue	1,542,066	1,612,715	1,814,561	2,088,626	2,283,388
<b>Total Non-Interest Expenses</b>	<b>(793,347)</b>	<b>(827,305)</b>	<b>(944,459)</b>	<b>(1,040,465)</b>	<b>(1,169,035)</b>
Pre-provision Operating Profit	715,544	752,924	837,130	999,986	1,065,773
<b>Total Provision Charges</b>	<b>(440,130)</b>	<b>(244,521)</b>	<b>(165,073)</b>	<b>(142,945)</b>	<b>(183,779)</b>
Operating Profit After Provisions	275,413	508,402	672,056	857,041	881,994
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	275,413	508,402	672,056	857,041	881,994
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	275,413	508,402	672,056	857,041	881,994
<b>Exceptional Items</b>		<b>(74,184)</b>			
Pre-tax Profit	275,413	434,219	672,056	857,041	881,994
Taxation	(71,307)	(117,459)	(169,732)	(222,831)	(229,318)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	204,107	316,760	502,325	634,211	652,676
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	204,107	316,760	502,325	634,211	652,676
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Gross Loans/Cust Deposits	90.5%	93.9%	98.7%	98.5%	100.8%
Avg Loans/Avg Deposits	95.3%	92.3%	96.4%	98.6%	99.7%
Avg Liquid Assets/Avg Assets	35.3%	37.5%	35.7%	33.6%	32.8%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>41.7%</b>	<b>44.5%</b>	<b>41.8%</b>	<b>38.9%</b>	<b>38.1%</b>
Net Cust Loans/Assets	54.0%	54.8%	58.0%	58.9%	59.6%
<b>Net Cust Loans/Broad Deposits</b>	<b>90.5%</b>	<b>93.9%</b>	<b>98.7%</b>	<b>98.5%</b>	<b>100.8%</b>
Equity & Provns/Gross Cust Loans	10.4%	10.2%	10.2%	10.3%	10.3%
Asset Risk Weighting	51.9%	52.5%	51.9%	51.2%	51.2%
<b>Provision Charge/Avg Cust Loans</b>	<b>1.84%</b>	<b>0.94%</b>	<b>0.56%</b>	<b>0.42%</b>	<b>0.48%</b>
<b>Provision Charge/Avg Assets</b>	<b>1.04%</b>	<b>0.51%</b>	<b>0.31%</b>	<b>0.24%</b>	<b>0.28%</b>
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Gross Loans</b>	<b>24,494,978</b>	<b>27,339,666</b>	<b>31,992,692</b>	<b>36,264,628</b>	<b>40,842,960</b>
Liquid Assets & Invst. (Current)	13,517,052	14,814,454	15,703,662	16,668,787	17,997,912
Other Int. Earning Assets					
Total Gross Int. Earning Assets	38,012,028	42,154,120	47,696,356	52,933,416	58,840,872
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	38,012,028	42,154,120	47,696,356	52,933,416	58,840,872
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,517,687</b>	<b>3,399,249</b>	<b>3,970,616</b>	<b>4,476,995</b>	<b>5,059,886</b>
<b>Total Non-Interest Earning Assets</b>	<b>3,901,879</b>	<b>3,776,331</b>	<b>4,394,434</b>	<b>4,904,207</b>	<b>5,487,045</b>
Cash And Marketable Securities	3,430,387	3,945,523	3,078,996	3,719,571	4,234,022
<b>Long-term Investments</b>					
Total Assets	45,344,296	49,875,972	55,169,784	61,557,192	68,561,936
Customer Interest-Bearing Liabilities	27,063,432	29,113,860	32,416,208	36,812,772	40,515,340
Bank Deposits					
Interest Bearing Liabilities: Others	3,621,421	4,030,171	3,146,556	4,172,977	4,260,434
Total Interest-Bearing Liabilities	30,684,854	33,144,030	35,562,764	40,985,748	44,775,776
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,671,381	1,455,978	1,631,101	1,819,797	2,299,318
Total Liabilities	32,356,234	34,600,008	37,193,864	42,805,544	47,075,092
Shareholders Equity	2,538,752	2,800,881	3,276,085	3,751,743	4,224,932
<b>Minority Interests</b>					
Total Equity	2,538,752	2,800,881	3,276,085	3,751,743	4,224,932

<b>Key Ratios</b>					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth	12.9%	9.0%	20.0%	14.1%	8.5%
Operating Profit Growth	4.8%	4.9%	10.8%	20.5%	6.3%
Pretax Profit Growth	10%	58%	55%	28%	3%
Net Interest To Total Income	71.8%	74.8%	79.8%	79.1%	78.5%
Cost Of Funds	5.42%	4.85%	5.45%	5.90%	5.51%
Return On Interest Earning Assets	7.4%	6.9%	7.4%	7.8%	7.4%
Net Interest Spread	1.98%	2.02%	1.94%	1.87%	1.93%
Net Interest Margin (Avg Deposits)	4.42%	4.30%	4.71%	4.78%	4.64%
Net Interest Margin (Avg RWA)	4.88%	4.86%	5.29%	5.50%	5.38%
Provisions to Pre Prov. Operating Profit	62%	32%	20%	14%	17%
Interest Return On Average Assets	2.61%	2.54%	2.76%	2.83%	2.76%
Effective Tax Rate	25.9%	27.1%	25.3%	26.0%	26.0%
Net Dividend Payout Ratio	17.5%	16.2%	20.1%	25.0%	
Return On Average Assets	0.48%	0.82%	0.96%	1.09%	1.00%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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